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ABSTRACT

This document examines the current Canadian tax structure, legislation, sources of tax revenues, exemptions, deductions, and tax treaties with foreign countries. Part I reviews the sources of revenue and explains why the tax system is so complex. Among the reasons given for the complexity are that the system must spread the tax load over as many sources as possible and must serve specific objectives such as using gasoline taxes to maintain roads. Questions of who should pay taxes and who actually does pay taxes are briefly covered. Part I concludes with considerations of what the overall character of the tax system should be and discusses exemptions, business taxes, property taxes, and sales taxes. Part II provides a brief outline of the Canadian tax system at three levels of government as it existed at the end of 1977. The governmental levels are federal, provincial, and municipal. Federal tax is broken down into personal income tax and other taxes including sales, petroleum export, air transport, and excise taxes. Custom duties are also considered to be federal taxes. At the provincial level taxes are collected on items such as income, retail sales, gifts, gasoline, alcohol, and tobacco. Municipalities levy taxes against property, tenants, and businesses. They also collect special assessments and charges. In a concluding section tax treaties with other countries are discussed using the Canada-U.S. Tax Convention as an example. (BC)

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Government and the
Economy --- Taxation

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An Overview
of Taxation

J. Harvey Perry

Anatomy of the
Tax System

Gwyneth McGregor

SO-011 314

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# AN OVERVIEW OF TAXATION

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# The Canadian Tax System

**Preface**

The third in our series on "Government and the Economy", TAXATION discusses the thinking behind the current tax structure and legislation and goes on to tackle the nitty gritty of the sources of tax revenues, the exemptions and deductions and the highlights of our tax treaties with other countries.

The two authors of this work have been involved with and writing on tax matters for many years.

J. Harvey Perry, President of the Canadian Foundation for Economic Education, was with the Department of Finance in Ottawa for 16 years, advising on tax and budget policy. In 1952, he joined the staff of the Canadian Tax Foundation and served as Director and Chief Executive Officer from 1954 to 1961. This period included special missions for the Colonial Office in Nigeria and for the UN Technical Assistance Administration in Ghana.

Executive Director of the Canadian Bankers' Association for 14 years, he was a member of the Royal Commission on Taxation (Carter Commission) from 1962 to 1966 and the Ontario Advisory Committee on Confederation. He has written two books on taxation – "Taxation in Canada" and "Taxes, Tariffs and Subsidies", and co-authored "Financing Canadian Confederation".

Gwyneth McGregor was editor of the *Canadian Tax Journal*, published by the Canadian Tax Foundation from 1953 to 1970, and educated her readers on the vagaries of Canadian tax law through her column, "Around the Courts" which was both entertaining and perceptive.

Mrs. McGregor was educated at the University of Wales in England and was assistant inspector of taxes in the Inland Revenue for four years. In the course of her career in Canada she wrote a number of booklets on taxation and tax articles for the *Financial Post* and the *Globe & Mail* as well as editing part of the Report from the Carter Commission. She was also one of the advisors to the Commons Finance Committee in producing their Report on the Government White Paper on Taxation in 1970 and was editor and contributing author of the first two editions of "The Income Tax Law of Canada" by Arthur R.A. Scace.

It would be difficult to find two authors better able to organize and explain the scope and limitations of the Canadian tax system. It is an extremely complicated subject – one which many people refuse to contemplate more than once a year. And then they have someone else cope with their tax returns. This booklet is definitely *not* a layman's guide to the subtleties of the tax forms, but it does make sense of why they look the way they do.

Neither is this booklet a proponent for the tax system as it now stands in Canada. There are alternate routes and many of them are studied each time before new tax legislation is introduced.

Harvey Perry's "Overview" does point up, however, that most tax systems are based on an attempt to be "fair". "Fairness", like "beauty" however, is often in the eye of the beholder – or in the case of taxation, in the eye of the beholden. The different taxes, imposed in different ways, usually appear to make some people more beholden than others! For this reason, a tax system has not yet been devised that is considered "fair" by absolutely everyone.

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The first two booklets which we have published on "Government and the Economy" – the first subtitled "How Much?" and the second "Economic Stabilizers" – have both been widely circulated to our audience, mainly within the Canadian high school system. They have elicited excellent and enthusiastic response with many requests for class sets, despite the fact that we originally conceived them as a teacher resource only.

We trust that this booklet on "Taxation" will be equally useful for background, research and general discussion.

**P.J.H.**

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# The Canadian Tax System

## AN OVERVIEW OF TAXATION

J. Harvey Perry

The first step towards understanding the general anatomy of the tax system is to realize that most of the terms used to describe it are misleading. In common speech we refer to sales taxes, income taxes, property taxes, etc. etc. This language seems to imply that the phenomenon itself – e.g. a sale – can be made subject to tax.

In fact the only way that a tax can be paid is when a human being pays it. No one has yet devised a method for exacting taxes from other forms of life – be it plant or animal. Taxes must be paid by human beings, and the only sensible way to think of taxes therefore is to consider all forms to be "people" taxes.

**What are the Sources?**

Bearing these reservations in mind, the main revenue sources of Canadian governments under the familiar headings were as follows in 1974-75:–

| | $ million | % of total |
|---|---|---|
| Personal Income Tax | 17.3 | 28.7 |
| General & other sales taxes | 9.1 | 15.1 |
| Corporate Income Tax | 6.7 | 11.1 |
| Real & Personal Property Taxes | 4.4 | 7.3 |
| Social Insurance Levies | 2.3 | 3.8 |
| Customs Duties | 1.8 | 3.0 |
| Pension Plan Levies | 1.6 | 2.7 |
| Motive Fuel Taxes | 1.4 | 2.3 |
| Oil Export Tax | 1.7 | 2.8 |
| Health Insurance Premiums | .9 | 1.5 |
| Other | 1.5 | 2.5 |
| Total tax revenues | 48.7 | 80.8 |
| Non tax revenues | 11.6 | 19.2 |
| Total revenues | 60.3 | 100.0 |

**Why So Complex?**

When taxes are looked on as levies simply designed to obtain funds from living people it is natural to ask why they have to be so numerous and frequently so complicated. The list of more important taxes includes taxes on sales, income (both personal and corporate), gifts, bequests, property (both real and personal) capital gains, special charges for automobiles, gasoline, liquor, tobacco, special levies for various forms of social services (health and hospital insurance, unemployment insurance etc.) and a host of lesser items. Why not just one simple form of tax that all people would pay?

The following are some of the main explanations for what is usually described as the tax jungle:

*1. Spreading the Load*

It is a fairly ancient principle of taxation that the load should be spread over as many sources as possible in order to minimize irritation, a practice well described as "plucking the goose with the least amount of squawking." This is based on the undoubted truth that no one really likes to pay taxes, and if the bill were presented all at one time it would be indignantly rejected. From this follows the ancient principle – frequently disregarded by politicians to their sorrow – that large tax increases should be made gradually.

*2. Serving Several Objectives*

Some taxes are imposed for more than the basic reason of obtaining revenues. A common reason is to relate the charge to the benefit received – e.g. gasoline taxes paid by motorists to help build roads. Another common objective is to impose an extra cost on habits traditionally viewed with disapproval by society – e.g. drinking and smoking.

A very influential reason is to meet the social purpose requiring better-off citizens to make a larger contribution to the public good than less prosperous citizens, the prime examples of this being the graduated personal income tax and the taxes on gifts and bequests. Recognition of "fairness" or "equity" is also apparent in the income tax, which attempts to take account of many individual circumstances between taxpayers and becomes complicated as a result. Somewhat the same purpose is exemplified in the way in which certain taxes are imposed – in general sales taxes, for example, exempt food and frequently children's shoes and clothing.

Economic objectives are also frequently involved in the form of certain taxes, such as the granting of an exemption or a reduced rate for an activity or expenditure thought to be of benefit to the economy. Customs duties, although revenue producing, are also an arm of economic and commercial policy. The element of tradition and usage is also strong in taxation. Many forms of tax have a long history and taxpayers generally have accommodated to them and would prefer to continue with "the devil they know" rather than a new and theoretically better form of taxation. Politically, certain forms of tax – such as taxes on the income of corporations – also have appeal because they have little direct impact on the citizen.

With all these objectives for a revenue system it is difficult to visualize any one form of tax that would meet the bill.

**Who Should Pay?**

Despite this plethora of conflicting objectives – or perhaps because of it – the basic question remains as to who should pay the final reckoning. Nothing arouses emotions among taxpayers more quickly than a feeling that they are being asked to bear more than their share of the burden.

But what are the standards by which to measure the proper burden? And here we must remind outselves that we are not thinking in vague terms of the "burden" of sales tax or income tax or whatever, but of the share of the total tax load borne by individual living citizens. Leaving aside for the moment the very real problem of measuring the weight of this mass of complex taxes on a citizen let us look at what this weight *should* be.

One could say that there are as many ideas about this as the objectives for the tax system listed above. Some would argue that the burden should be commensurate with benefits received; that the burden should reflect economic or social objectives; that the burden should be greater the greater the ability to meet it, and so on.

The feeling that most people have – and being a subjective judgement it is often not much more than a feeling – is that taxes should be fair. This translates more positively into a view that no one should pay either more or less than they should. This in turn can be made more concrete in the idea that taxpayers in equal circumstances should be taxed equally. Beyond that there is at least a token acceptance of the idea of progressive taxation – namely that the greater the surplus of means above basic needs the heavier proportionately the tax burden should be. In actual practice the only element of the tax system that directly operates in this way is the graduated personal income tax, although the exemptions (e.g. food) under some of the other forms of tax also contribute to this end. It seems that this is about as specific as one can be about a basic postulate for the "right" burden of tax. And it is one to which there is no binding commitment. In the interests of a social or economic objective of overriding importance it will be abandoned very quickly.

Nonetheless it remains as an overriding rule – and ideal – without which the tax system would degenerate into complete chaos.

**Who Does Pay?**

The complexity of existing taxes means that the determination of final burden is a complicated study. Each of the main strands must be untangled and studied in isolation then brought together in a total reckoning. The recognized method for doing this is to use the details of income, expenditure and property ownership to identify the amount of tax paid at various levels of income. The most comprehensive data relate to families, and by determining the taxed content of family expenditures and the income tax relating to the family status the principal elements of tax burden can be determined.

For some of the taxes that do not fall directly on the family some broad assumptions as to "incidence" have to be made. The two most troublesome such taxes are the real property tax and the corporation income tax. The property tax applies to a great many residential and business properties that are rented; some assumption has to be made about the extent to which it is passed on to tenants in the rent or fall on the landlord. Similarly a tax on a corporation will be "shifted" to some group of living persons, since the corporation itself by definition is incapable of bearing the tax. It can be shifted to shareholders in reduced dividends or lower accumulation of undistributed surplus, to customers in higher prices, to employees in lower wages, or to all three in varying proportions. Assumptions have to be made about this major tax as well therefore. Several other lesser taxes present the same problem.

The main arguments go on among the experts about the "shifting" and "incidence" assumptions. In fact they can arise regarding almost any tax, since under special circumstances there can be shifting of any form of taxation.

Several studies have been made for Canada, as well as for other countries.* They tend to show much the same results.

In general the burden of tax is less steeply graduated than most people believe. In fact the line of most tax burdens is more likely to be flat than sloping. Usually the exception to this is a regressive upward curve in the lower incomes – i.e. an *increase* in the proportion of income taken in tax. This arises because of taxes that are not based on income, such as the property tax, which bear heavily where a large proportion of income must be spent on the taxed item, such as shelter. This is not as serious an indictment as it sounds, because it is the lowest incomes that derive the proportionately greatest benefit from government programs, more than offsetting the regressive tax effect. This effect has also been specifically dealt with in some provinces by direct payments to homeowners and others to counteract the regressive effect of the property tax.

The broad conclusion is that while society subscribes in principle to the theory of a progressively rising tax burden the actual experience falls short of this goal. In general this is the result of the heavy reliance on taxes levied on other than personal income – the flat or diminishing burden of which tends to offset the effect of graduated personal income tax rates. This would be overcome only by greater emphasis on the personal income tax and similar taxes having a graduated burden. We have already outlined the problems of concentrating on one form of tax, although in fact there has been a greater emphasis placed on personal income tax in Canada in recent years. For example in the federal revenue structure it accounted for 34.5% of total tax revenues in fiscal 1968, and in fiscal 1978 had risen to nearly 43% . The personal income tax is also the largest single source in the combined revenues of all governments. In the latest year for which details are available (1974-75) it accounted for 29% of the total, as compared with 15% for general and other sales taxes, 11% for the corporate income tax and 7% for the real property tax.

**Who Gets What?**

The share of the tax pie taken by the federal government is slightly larger than that of the provinces and municipalities, just over half in recent years. However, nearly 20% of federal expenditures are transfers through grants and other payments to provincial and local governments. Taking these into account reduces the federal share for its own purposes considerably below the half mark.

**How Much is Enough – or too Much?**

The question of the limits to the tolerable burden of taxation is a perpetual one; when do taxes become too heavy for the economy to bear?

There are several measurements commonly used for this purpose. Actually in terms of "tax burden" the one most often employed is not appropriate. This is the percentage of gross national product taken by government expenditure – around 40% in recent years. Because much government expenditure is financed by borrowing and other revenue sources this is not a true reflection of the "tax burden", which in fact in recent years has been in the neighborhood of only 32-33% of gross national product.

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* See for example: W. Irwin Gillespie. **The Incidence of Taxes and Public Expenditures in the Canadian Economy**, Ottawa, Queen's Printer, 1964 (Studies of The Royal Commission on Taxation Number 2) and Walker, Michael, ed. **How Much Tax Do You Really Pay?** Vancouver, Fraser Institute, 1977

Since the higher figure is in such common usage it must be taken for granted that it is the overall burden of government expenditure, not the "tax burden", that is under protest. It is the extent to which, in one way or another, decisions as to the application of both the real and financial resources of the economy have been transferred from the private to the public area. This is the legitimate basis of the concern expressed in the first of this series – *Government and the Economy – How Much?*

Obviously there is a strong and general feeling that at present the balance has swung too heavily towards decisions by government, to the detriment of the economy at large.

Nonetheless the comparisons with gross national product must be used with caution. It is incorrect to imply that government "takes" 38-40% of the GNP as though an amount of some $80 billion has simply disappeared in the process. Except to the limited extent that funds are sent abroad, all government expenditure is returned in some way or other to Canadian pockets in employment, payments or services rendered.

Society has long since deemed it expedient to carry out certain activities on a group basis – educating our children and building our roads are examples – and these are a large part of government activity. Another large part is the making of income-supporting payments to families with children, the aged and others – the so-called transfer payments. A new and very important expenditure is for hospital and health insurance, the effect of which is that nearly all health expenditures have been transferred from family budgets to government accounts. This is not an apology for the 38-40% ratio, which is high and is cause for concern. However, it is reason to exercise care in the use of these data.

**Taxation and the Economy**

The general role of government budgets in acting as a stabilizer in the economy has been covered in an earlier study in this series by John W. Popkin, and needs no further detailed treatment here. Suffice it to say that despite considerable skepticism regarding the effectiveness of the "big levers" – monetary and fiscal policy – both business leaders and economists tend to think of government impact on the economy in terms of fairly large aggregate changes. It is probably true that with government expenditures at the levels we have just discussed any posture of budgets – even a no-change posture – will have an economic effect. Generally, however, arguments are most frequently advanced for a new budget stance to help the economy. The attention given during the peak unemployment periods in 1978 to a $2 billion tax reduction to stimulate consumer spending and investment is the most recent example.

Inflation has also had its impact on the tax system. The most concrete instance is the indexation of both rates and allowances under the personal income tax. Much current attention is also being given to means of removing the influence of inflation from corporate accounting, although the view among accountants is not unanimous on this need. Although the trend did not develop from economic motivation, the income tax has given saving a heady stimulus in recent years through the RRSP (registered retirement savings plan) provisions. The annual February fever to build up the accumulation in one's personal RRSP is a new feature in Canadian taxation, no doubt having considerable economic im-

pact. It is not unusual in tax matters that this appears to be in contradiction to the proposals being made simultaneously for tax cuts to stimulate spending. Nor is it surprising that the whole vast area of pensions is being reviewed by several committees and task forces at the present time.

Perhaps the pending tax changes having greatest significance for the economy are the tariff revisions that will result from the GATT negotiations. The nature of these will not be known for some time, but will be crucial for some industries.

Finally – and by no means exhausting the list – one should mention the imbroglio that has developed in recent years between the federal and provincial governments in natural resource taxation, which has undoubtedly blunted mineral and petroleum development in Canada. The economic significance of this clash of interests seems now to be producing more moderate attitudes.

**Federal Provincial Relations**

We will cover details of the very complex financial relations between Ottawa and the provincial governments in a separate study. The significant point to be made at present is the trend towards more relaxed terms with more dependence on increases in the provincial personal income tax surtax as a means of sharing tax revenues and, towards fewer restrictions on the conditions for obtaining specific service grants (e.g. for education, health, social welfare). Under the new financial arrangements implemented in 1977, the provinces were allowed an additional 9.143 personal income tax percentage points, with the result that in several provinces that additional provincial tax will exceed 50% of the federal tax.

A novel feature of federal-provincial relations in 1978 was the payment by the federal government of a substantial part of the loss incurred by the provinces in reducing their retail sales taxes for a fixed period. (See material on provincial sales taxes in the second section of this booklet.)

A related subject, since both levels of government are closely involved, is the continuing study of a rationalization of the relationship between the personal income tax and the social security system. The tax system has always been prominently considered in this connection, as for example in the so called "negative income tax" concept. Any departure from universality in the social security area would also have major tax consequences.

**Unending Problems**

To conclude this very brief overview; one would imagine that after the experience of probably two or three thousand years of taxation there would be few unresolved problems remaining. On the contrary; today, conferences of tax experts attract hundreds and even thousands, tax legislation and regulations pour forth in an ever-growing volume and tax implications of almost every personal and business decision are crucial. Even more indicative of endless complexity is the constant attention to "tax reform" and the never-ending series of studies by commissions, committees and task forces.

Without pretending to be exhaustive the following is a pot-pourri of issues old and new, general and specific, that are constantly under review.

**What Should be the Overall Character of the Tax System?**

Apart from their main purpose of raising revenues for government, tax systems can have different general structures. A system that stresses taxation of incomes – as did that recommended by the Canadian Royal Commission on Taxation – emphasizes the accrual of economic power as evidenced by income receipts. But a quite different position can be taken. A study group in England, for example, has recently issued a report recommending shifting from personal income to personal expenditure as the base, thus stressing the *exercise* of economic power rather than its accumulation. Such a tax would favour saving and penalize spending from any source, including the liquidation of assets. Which is the right basis?

*Tax or Charge?*

Another constant question, somewhat related to the previous one, which arises frequently in all jurisdictions is the extent to which specific elements of public service, such for example as hospital insurance, should be paid for by a specific fee or charge for this purpose or through the general tax system. There are strong arguments on both sides, and both systems are widely used. The case for the direct charge is that as far as possible, particularly where individual personal services are being provided, it is a sound democratic principle that the citizen know the cost to him. The counter-argument is that direct charges offend against the principle of ability to pay, and that increases in them are regressive.

In practice public reaction seems to depend on unpredictable attitudes and also on the amount of the charge. Some readers will remember the unholy fuss that accompanied the attempt during the early years of government-sponsored radio to collect a trivial $2.50 annual licence fee. Recent experience in Ontario with increases reveal that both the context and the amount are relevant. A projected increase of 37% in the direct charge for state medicine was greeted with howls of anguish and was cut in half as a result, whereas a 50% increase in automobile licence fees the year before went by unnoticed.

*What Exemptions Should be Granted?*

Although most taxes would be quite unfair without exemptions and special features that allow for individual circumstances, all tax measures would be much more efficient and effective if no exemptions were granted. The nature and form of the basic exemption (income deduction, tax credit, etc), the drawing of lines between one cause and another removed by a hair's-breadth, the expense of granting a broad general relief where a much narrower form of assistance would do, the opportunity provided for giving other transactions the colour of the exemption so that they will qualify – all these create problems for the tax administrator. The fact that every taxing statute is riddled with special provisions is proof that legislators have their own conception of equity, and this overrides the dictates of technically perfect taxation.

*How Should Business be Taxed?*

Business is carried on either in corporate form or by sole proprietors and partners. The

heaviest taxes it pays are income taxes, but other taxes are also imposed. The corporation as such pays an initial tax on its profits before they are distributed to its owners or used for other purposes. Since any tax on a corporation has to find its way into higher prices, reduced dividends, reduced wages or reduced retained earnings, and it is by no means certain which effect will result, the taxation of corporations is a constant issue. Also because the corporation is the principle economic vehicle it is frequently the target of either incentives or disincentives through the tax system, depending on the needs of the economy. Some of these work – many of them don't; all raise issues that seem very remote from the basic proposition that all taxes are "people" taxes. Of all aspects of taxation this is one of the most complex.

*How Should Property be Taxed?*

Normally we think of property as being land and buildings, but it takes many forms – shares, bonds, rights of one kind or another and so on. Should the ownership of property be taxed at all? Real property taxes in municipalities are justified by the services their owners receive from the local government, many of which have no relation to the property itself. Property can also be taxed at the time of a transfer or on the realization of an accrued gain, as under a capital gains tax. The former is the basis of death taxes and succession duties, thought to be a fair means of tapping accumulations of wealth. The latter is usually justified on the basis that the gain represents the accumulation of values which, if received annually, would have been subject to income tax.

Administrative problems under all these property taxes are severe, particularly where valuation, exemptions, etc. are involved. Real property taxation is a maze of compromises that makes it unreal and illogical in many ways, and efforts at reform usually run aground. Like many other areas, property taxation in all its forms presents a host of unsolved problems.

*How to Tax Sales?*

The provinces impose a tax, as required by their constitutional position, at the point of final sale, while the federal government levies a tax at the manufacturers' level. Together they probably now amount to a levy at retail of 18-20% or more, the federal part being hidden in the price of the goods. Which is the best form of tax? Should such taxation be this heavy? Should there be a "value added" tax in their place, as has become popular in Europe?

The foregoing is only a brief glimpse at the many perplexing questions that constantly arise under any system of taxation. Presumably the well informed citizen will have his own views on all of them and a good many more not mentioned. If he does not it is only for lack of attention to the vast amount of literature available on the subject. One organization alone – the Canadian Tax Foundation – is engaged full time in studying all aspects of government revenues and expenditures and issues very detailed and informative publications on them. In addition there is a mass of material in the reports of Royal Commissions, task forces, study groups, economic councils, government departments etc., etc., much of which can be obtained at little charge. No one need be poorly informed on this vastly important subject.

# ANATOMY OF THE TAX SYSTEM

Gwyneth McGregor

The following is a brief outline of the Canadian tax system as it existed at the end of 1977 at all three levels of government. It is not intended as a guide for taxpayers in meeting their business or personal tax problems; for that a great deal more detail would have to be given than is possible here. Rather it is hoped that the average interested reader will be able to gain some perspective on a phenomenon which is a basic part of daily living but which is so complex that it is difficult to grasp in its totality. Jargon and unnecessary detail are the hazards in such a presentation, and we have tried to avoid both.

## THE FEDERAL INCOME TAX

The main source of federal revenues, and that of which people are generally most conscious, is the personal income tax. The following pages outline the main features of this tax.

### Who is Taxed

The *Income Tax Act* levies a tax on the taxable income of (a) *residents* – i.e. every person resident in Canada at any time in the year, and (b) *non-residents* – every person who was employed in Canada, carried on business in Canada or disposed of a taxable Canadian property at any time in the year or a previous year. ("Person" includes a business in this use.) Non-residents are also subject to "withholding tax" on certain payments received from Canada.

*Residence*

The broad and very important distinction is that generally residents are taxable on their whole income, no matter where earned or received; non-residents are taxable only on their income derived from Canada. The determination of the place of residence of individuals, corporations and trusts can be complicated. The question of whether an individual is resident in Canada is usually quite simply answered; the difficulties arise when a person spends some of his time in another country as well as in Canada, for in law a person may have more than one country of residence.

The residence of corporations is more difficult to establish, because a corporation is a legal entity and does not "reside" anywhere in the sense that an individual does. A general rule is that a corporation is resident in the country where it is incorporated, but an older common law rule is that a corporation is resident where its central management and control are situated.

**Concepts of Income**

"Income" is a simple word, but nowhere in any book on taxes, or in any tax statute, is it completely defined. As the whole purpose is to tax "income", the lack of clarity introduces a certain amount of confusion. The law evades the issue by stating that certain things are to be included in income, but it does not define the word itself. The main problem is that it does not have just one meaning; it means different things to different people, and in different contexts.

In its broadest sense, as understood by economists, it means everything that increases a person's "economic power" – that is, the power to command goods and services – between two points in time. This concept would include in income (in addition to wages, salaries, profits, rents and so on) gifts, inheritances, windfalls and capital gains, as well as what is known as "imputed income", for example the financial benefit a person has as a result of owning his home instead of paying rent.

The Royal Commission on Taxation (Carter Commission) did in fact recommend the inclusion of all these things except imputed income, which it excluded only because of the appalling administrative problems it would involve. The income that is made subject to tax is in fact a good deal narrower than the economists' concept.

There is also the accounting concept, important for the taxation of businesses, which has greatly influenced that of income for tax purposes. The Act states that income from a business is the "profit" therefrom, "profit" being an accounting principle necessitating the deduction from gross income of the expenses incurred in obtaining it. However, accounting principles have sometimes to be modified to comply with specific provisions in the law, so that income as computed by using strict accounting principles is not always the same as income as computed for tax purposes. Probably the most troublesome area in the determination of what is income is the question of whether a receipt is capital or income. Until 1972 Canada had no capital gains tax, so any amount which was held to be capital in nature went taxfree; since 1972 there has been a capital gains tax, but as only one-half of the capital gain is considered taxable, the distinction is still of great importance to taxpayers.

The basic principle is that any gain which is merely an increase in the value of an investment – as, for example when an ordinary investor sells a stock for more than he paid for it – is capital in nature; but where a gain is realized through some transaction or transactions of a business nature – as, for example, where a person buys land or buildings or other assets for the sole purpose of selling them at a profit – the gain is of an income nature and taxable in full. This concept is sometimes known as that of "the fruit and the tree"; the tree is the capital, and what it produces is the fruit, or income. The principle is clear and simple enough, but there are a great many borderline cases where the courts have to make a decision in the light of all the facts; and there has probably been more jurisprudence on this question than on any other in the income tax field.

These comments do not add much clarity to the subject, because in practice the income tax concept does not follow any strict model, being influenced by many practical and

political considerations. The saving grace is that most incomes are easy enough to identify – salaries, wages, dividends, rent, professional fees, etc – that serious questions do not often arise.

**Calculating Gross Income**

The *Income Tax Act* starts by giving a formula for determining a taxpayer's income for a taxation year, which is his income from *all* sources *inside* and *outside* Canada – that is, his "world income" – including income from all businesses, property and offices and employments, plus any excess of capital gains over capital losses, less allowable deductions and losses. Other provisions of the Act bring other items into income.

*Income from Employment*

The Act sets out in great detail what is included in employment income for tax purposes, the major items being wages, salaries and "benefits" of any kind whatsoever received or enjoyed by the employee "in respect of, in the course of, or by virtue of" his employment.

There are a great many appeals to the courts about what constitutes a taxable benefit received from an employment, and there are many borderline cases; but the most common types are such things as free board and lodging, low-rent or rent-free housing, personal use of the employer's automobile, holiday trips paid for, prizes, premiums paid by the employer to certain insurance plans or to provincial hospitalization and medicare plans, loans made at very low rates of interest, tuition fees paid or scholarships and bursaries furnished by the employer. In addition to these amounts specifically included in income, such as personal or living expenses paid, are directors' fees, allocations under a profit-sharing plan and unemployment insurance benefits.

*Income from Business*

"Business" is defined in the *Income Tax Act* as including a trade, profession, calling, manufacture or undertaking of any kind whatever as well as "an adventure in the nature of trade", but it does not include an office or employment. Thus any income-producing operation carried on by a person other than as an employee or the holder of an office is a business for tax purposes; a professional man carrying on a private practice is just as much in business as the man operating the retail shoe store. Even an isolated transaction, if it is carried on for profit and in a business-like way, can be an adventure in the nature of trade and its profits taxable as income from business.

There are some borderline cases. Certain things such as the ownership of an apartment house may be held to produce income from property rather than from a business, the line of demarcation usually being the services provided. If the owner merely provides the services generally expected of a landlord – maintenance, snow removal and so on – the income is from property; but if he supplies services such as maid services, furnishings and so on, similar to those in a hotel, he is in business.

*Income from Property*

"Property" is widely defined in the Act to mean property of any kind whatsoever, and income from it can take many forms. It includes dividends or other benefits from holding shares in a corporation, interest from bonds, debentures or other forms of loan investments, royalties from patents or copy-rights or rent from real property.

*Capital Gains*

Before 1972, capital gains – that is, gains made on the disposition of capital assets held for investment purposes – were not taxed in Canada. Since 1972, however, one-half of such gains has been subject to tax, and one-half of capital losses is deductible. There is no "capital gains tax" as such; the taxable part of the capital gain is simply added to the taxpayer's income for the year and taxed at the ordinary rates.

Taxable capital gains arise only from the "disposition" of property. The main way to dispose of property of course is to sell it. But other forms are included as well. Exchanges, gifts, expropriations, redemptions, debt settlements, theft, damages or destruction are treated as dispositions.

There are also some "deemed" dispositions. For example, when a taxpayer dies, he is deemed to have disposed of all his capital assets and realized any accrued gains (or suffered accrued losses) arising up to the time of his death. The taxation of such gains takes the place of the federal estate tax which was abolished in 1971. Another important deemed disposition takes place where a Canadian leaves Canada and ceases to be a resident; he is deemed to have disposed, at fair market value, of his capital property with certain exceptions.

Broadly speaking, the capital gain is the difference between the amount realized from the disposition after 1971 and the cost of the asset or its value at the date set as "Valuation Day", at the end of 1971. There are complicated rules to follow, particularly where assets were bought before 1972 and sold afterwards, the object being to ensure that no gain made before 1972 be taxed and no loss allowed.

The gain being measured is from the disposition of "property", which is very broadly defined. It includes property of any kind, tangible or intangible, and including a right of any kind; and it is divided for capital gains purposes into classes, according to the tax treatment given to them.

A very important exemption is a gain on the disposition of the taxpayer's home, provided that it has been his "principal residence" during the entire period of ownership after 1971, and he has so designated it. The residence need not be a house, but can also be a condominium apartment, trailer, duplex, mobile home or houseboat. The land on which the residence is built, plus one acre of adjoining land, is included in the principal residence. Gains on "personal use property", which includes such things as personal effects, cars, boats, furniture and so on, are not taxed unless the sale price exceeds $1,000.

Though there are special rules for capital losses, depending on the class of asset, generally speaking they may be set off against capital gains plus $2,000 of other income of an individual (not of a corporation); and any unused portion of a loss in the year may be carried forward to the next year, though this may not apply if the control of a corporation changes.

**Income for Tax Purposes**

Having established the "gross income" of the taxpayer, the next step is to make the appropriate deductions to arrive at "income" (commonly referred to, though not in the Act, as "net" income) for tax purposes.

*Deductions from Employment Income*

The expenses that may be deducted from employment income are few, and are specifically itemized. In addition to a blanket allowance of 3% of income subject to a maximum of $250, employees may claim the following expenses where applicable:

- contributions to a registered pension plan (limited to the lesser of 20% of earned income or $3,500);
- legal expenses incurred in collecting pay;
- a deduction for clergymen for the cost of living quarters;
- contributions to a teachers' exchange fund;
- certain expenses for railway and transport employees;
- expenses incurred by commission salesmen in earning their income, subject to certain conditions;
- travelling expenses in some circumstances;
- professional and union dues;
- automobile costs in certain circumstances;
- unemployment insurance premiums and contributions to the Canada or Quebec Pension Plan.

*Deductions from Business Income*

The Act states that income from a business is the "profit" therefrom for the year. The word "profit" is not defined, but in practice it is computed, generally speaking, according to accepted accounting principles and practice. In broad terms this means that income is gross income minus the expenses incurred to acquire it and minus, where applicable, an allowance for the cost of capital assets used in the business, such as plant, buildings or machinery.

All businesses except farming compute their profit on the "accrual" basis, by which such things as accounts payable, accounts receivable and work in progress are taken into account in the year. Farmers are allowed to use the "cash" basis, where only cash payments and receipts in the year are taken into account. The explanation is of course an over-simplification of the often complicated processes of tax accounting, but it describes the basis upon which they are built.

A unique feature of the Canadian income tax is the method followed for allowing a deduction for capital expenditures for buildings, machinery, equipment etc. having a life longer than one year. In the Regulations at the end of the *Income Tax Act* these "depreciable assets" are grouped into "classes", each of which carries a percentage figure by which the cost of the asset may be recouped annually by deduction from gross income. For example, if an asset cost $100 and the annual allowance is 5%, the taxpayer will deduct $5 in the first year; in the second year the "undepreciated capital cost" of the asset is $95, so he will deduct 5% of $95 – and so on. This is known as the "diminishing balance" system and contrasts with the "straight line" system under which a deduction of 5% of $100 would be made each year for 20 years.

Finally, there are certain deductions which are allowed to all taxpayers. Again, there are too many to set out here, but some of the most widely used are:

- premiums paid to an R.R.S.P. – registered retirement savings plan – (limited to the lesser of 20% of earned income or $5,500 for a person not a member of a registered pension plan);
- alimony and maintenance payments in certain circumstances;
- tuition fees paid by the taxpayer, subject to certain rules;
- contributions by a self-employed person to the Canada or a provincial Pension Plan;
- moving expenses, subject to limitations;
- child care expenses, subject to limitations.

**Computation of Taxable Income**

When "income" has been established, the next step is the computation of "taxable income" – the figure upon which tax will be calculated. This is derived by deducting certain allowances intended to adjust for the differing personal circumstances of taxpayers, so that at least a measure of equity is achieved between them. For example it would be most unfair to extract the same amount of tax from two taxpayers with the same income, when one was a single person and the other supporting a family or dependants. The basic allowances are adjusted annually in accordance with the Consumer Price Index, so that they increase, in effect, as the cost of living rises.

*Personal and Dependants' Allowances*

The "marital allowance" is given to a person supporting a spouse or a wholly dependent relative. Other persons receive the "single allowance". There are also allowances for wholly dependent children or grandchildren of the taxpayer, as well as nieces and nephews, subject to certain rules. These allowances are now indexed for changes in the Consumer Price Index. Some relief is given to taxpayers who contribute to the support of (without wholly supporting) dependent parents, brothers or sisters and aunts or uncles. People who have reached the age of 65 receive an extra allowance, as do blind persons and those confined to a bed or wheelchair.

The principal allowances for 1977 were as follows:

| | |
|---|---|
| Single person status | $ 2,270 |
| Married | 4,260 |
| Dependent child under 16 years of age | 430 |
| Dependent child 16 years of age and over | 780 |

These and similar allowances are carefully defined and there are restrictions as to income and other factors.

*Charitable Donations and Medical Expenses*

A taxpayer may deduct from income contributions to various "charitable" organizations up to 20% of his income for the year. Gifts in excess of the 20% may be deducted in the following taxation year. This provision applies to both individuals and corporations.

Medical expenses listed in the Act may be deducted to the extent that they exceed 3% of the taxpayer's income for the year. Receipts must be produced if required. The permitted expenses are set out in great detail and are very comprehensive.

Instead of making itemized claims for charitable donations and medical expenses, the taxpayer may claim the standard deduction of $100.

*Students*

In addition to the tuition fees already mentioned, students are allowed to deduct $50 a month while they are enrolled in universities, colleges and other institutions. Any unused part of the $50 may be claimed by a relative supporting the student.

*Losses*

The Act also recognizes three types of losses – non-capital losses, net capital losses and restricted farm losses. The definitions of and rules governing the deduction of these losses are too complicated to give here.

**Computation of Tax**

Having established "taxable income", the next and final step is the computation of tax payable.

In Canada, individuals pay tax to both the federal and the provincial governments. The *Income Tax Act* is a federal Act, intended to collect tax for the federal government; but under arrangements with the provinces (except Quebec, which levies its own income tax) the federal government acts as an agent for them in collecting personal income tax at whatever rate is set by a particular province, on taxable income as established by the *Income Tax Act*.

Provincial rates vary considerably from province to province, and range between 38.5% and 58.5% of the federal tax. The general rule is that an individual pays tax to the pro-

vince in which he resides at the end of the taxation year. The federal rates of tax applicable to income of 1977, and the provincial surtaxes payable as well, are as follows:–

**1977 Rates of Federal Income Tax**

| Taxable Income | Tax | |
|---|---|---|
| $ 710 or less | 6% | |
| 710 | $ 43 + 16% on next | $ 709 |
| 1,419 | 156 + 17% on next | 1,419 |
| 2,838 | 397 + 18% on next | 1,419 |
| 4,257 | 653 + 19% on next | 2,838 |
| 7,095 | 1,192 + 21% on next | 2,838 |
| 9,933 | 1,788 + 23% on next | 2,838 |
| 12,771 | 2,441 + 25% on next | 2,838 |
| 15,609 | 3,150 + 28% on next | 4,257 |
| 19,866 | 4,342 + 32% on next | 14,190 |
| 34,056 | 8,883 + 36% on next | 21,285 |
| 55,341 | 16,546 + 39% on next | 29,799 |
| 85,140 | 28,167 + 43% on remainder | |

**Provincial Rates – 1977** (% of federal tax)

| | | | |
|---|---|---|---|
| Newfoundland | 57.5 | Manitoba | 56.0 |
| Prince Edward Island | 50.0 | Saskatchewan | 58.5 |
| Nova Scotia | 52.5 | Alberta | 38.5 |
| New Brunswick | 54.67 | British Columbia | 46.0 |
| Ontario | 44.0 | | |

(Quebec has its own separate rate schedule)

*Credits Against Tax*

As compared with the previous deductions, which reduce income subject to tax, there are some deductions which reduce the tax as calculated. One important recent deduction relates to political contributions. Another of longer standing is the dividend tax credit (see below). Deductions are also allowed for foreign taxes paid on income which is also taxable in Canada, in order to remove the double taxation. There are also general reductions from the tax (for 1977, the federal tax was reduced by 9% with a minimum of $200 and a maximum of $500). Certain provinces also allow credits against their portion of the tax for specific factors; for example, Ontario, Manitoba, Alberta and British Columbia allow a credit for property tax and tax paid by low-income taxpayers, a credit that includes other taxes in some provinces. In 1977 the federal government allowed an additional special tax credit of $50 for each dependent child under eighteen.

*Dividend Tax Credit*

The dividend tax credit comes into play for a taxpayer receiving dividends from Canadian corporations. This credit against tax is available only in respect of dividends received from taxable Canadian corporations. It is designed to encourage Canadians to invest in such companies, to achieve almost complete "integration" for shareholders of Canadian-controlled private companies in respect of investment income and active business income taxed at the low rate. It is also intended to reduce "double taxation" for shareholders of both public corporations and private corporations where active business income is taxed at the full rate.

Under the present system the taxpayer must in effect add back to his dividend an amount representing the corporate tax paid on it, and then may make a deduction to bring his tax back closer to the tax that would have applied if there had not been a corporate tax. For 1977, the add back (gross-up) was 33 1/3% and the deduction 20%. (For 1978, these amounts have been increased to 50% and 25% respectively.)

**Averaging**

Some taxpayers receive large amounts of income in some year or years and much smaller amounts in others. Under our "progressive" system of income taxation, by which rates rise as income rises, such taxpayers would pay at extremely high rates in their high-income years. A taxpayer who receives, say, $100,000 in one year, or two years, would pay much more tax than another who received the same amount over five years.

The *Income Tax Act* endeavours to ameliorate the lot of such persons by two systems of averaging: general, which applies to all taxpayers, and forward, which applies to certain types of income only.

**Taxation of Corporations**

In Canadian tax law corporations are of two kinds, public and private. A public corporation is one that has its shares listed on a stock exchange in Canada. A private corporation is one that is resident in Canada, is not a public corporation and is not controlled directly or indirectly by a public corporation.

There is also a special kind of private corporation – a Canadian-controlled private corporation, the only kind which is eligible for the "small business deduction", which results in taxation at a low rate but only on its active business income; this is a private company resident in Canada that was incorporated in Canada or was resident in Canada continuously from June 18, 1971, and is not controlled in any way by non-resident persons or public corporations.

A public corporation pays tax at the full federal corporate rate on its active business income, its investment income other than dividend income, and the taxable half of its capital gains. Dividends received from other Canadian corporations are free of tax because they

are paid out of income that has already been taxed to the first corporation. There are special rules where dividends are received from non-resident corporations.

The taxation of private corporations is complex, and we shall not attempt to deal with it here.

*Small Business Deduction*

The 1977 general corporate tax rate was 46%. All provinces have corporate taxes, at rates ranging from 10% to 15%, that are deductible from the federal tax up to a rate of 10%; also there is a reduced rate for small businesses and for certain forms of income.

In order to assist small businesses to accumulate capital and expand, a special rate is given on income from an "active" business carried on in Canada by a Canadian-controlled private corporation, (but not on income from property, from non-active business or from foreign branches). The Act does not define the word "active" in this context and its interpretation is therefore left to the courts in borderline cases, such as income from rental property or from investment in mortgages.

The maximum deduction in any year may reduce the tax on active business income to 25% on an income of $150,000 or less. The low rate ceases in the year following that in which the corporation has accumulated a total of $750,000 of active business income earned after 1971.

Where two or more Canadian-controlled private corporations are "associated" under the Act, the annual limit and the total business limit must be allocated between them. Generally speaking, companies are "associated" for tax purposes when one controls the other, or both are controlled by the same person or group.

*Manufacturing and Processing Businesses*

A special low rate of tax is also granted for income earned from manufacturing and processing operations; corporations eligible for the small business deduction can have the tax rate reduced to 20%, other corporations to 40%. Since only income from manufacturing and processing operations is eligible for the lower rate, each corporation must apportion its income between such operations and others. The terms are not defined in the Act, but certain operations are specifically excluded.

**Non Residents**

A non-resident person is taxable on income earned in Canada from employment or business, taxable capital gains from the dispositon of "taxable Canadian property" and an interest in a Canadian trust.

In some circumstances the following may also be deemed to have been employed in Canada for the year: (1) non-resident students attending an educational institution in Canada; (2) former Canadian residents or students or teachers at an educational institution outside Canada; (3) persons who had ceased in a previous year to be residents of Canada as a result of moving to carry on research under a grant, or received remuneration from employment paid directly or indirectly by a Canadian resident.

A non-resident corporation carrying on business in Canada is liable to tax in the same way as a resident corporation. In addition, where the business is carried on through a branch operation rather than a Canadian resident subsidiary, it is liable for a "branch tax", the object of which is to even up, to some extent, the position of non-residents carrying on business through a subsidiary and those operating through a branch.

*Withholding Tax*

Where a Canadian resident makes certain payments to a non-resident he is required to withhold tax at a specified rate (generally 25% unless modified by tax treaties) from the payments and to remit the tax to the Receiver General. Withholding tax is levied on a number of types of payments including such things as: rents, royalties; certain types of pension payments; retiring allowances; registered retirement savings and deferred profit sharing plan benefits; annuity payments and dividends. It is important to remember that taxation of non-residents is subject to provisions of the international tax treaties which Canada has with a great many countries and which are designed partly to avoid the double taxation of taxpayers. The treaties may change the application of the Canadian law as it refers to non-residents, and where the law and the treaty conflict, the treaty governs.

**Administration**

The actual collection of the income tax is a massive job employing many thousands of people. The *Income Tax Act* sets out in detail the administrative procedures to be followed, as well as providing for an appeal system which permits any taxpayer to appeal his tax assessement. These are not described further here.

## OTHER FEDERAL TAXES

**General Manufacturers' Sales Tax**

The general manufacturers' sales tax is the main component of the federal commodity tax structure, imposed by the *Excise Tax Act*. It is sometimes referred to as a "hidden tax", in the sense that the consumer usually does not realize that it has been included in the cost of goods to him. The present rate is 12%.

The tax is imposed on the sale price of "goods produced or manufactured in Canada", unless they are specifically exempted. All Canadian manufacturers producing goods are subject to the tax and are required to be licensed, to maintain adequate records, to make sales tax returns and to pay the tax monthly.

Included in the list of exemptions from the general sales tax are: foodstuffs; electricity and fuels; drugs; clothing and footwear; bicycles; materials incorporated into manufactured goods; production; farming and mining machinery; pollution control machinery and equipment; commercial transportation equipment; and construction equipment. A reduced rate is provided for building materials – 5% in 1977, and a special rate of about 5¢ per gallon is provided for gasoline.

**Excise Taxes**

Excise taxes consist of *ad valorem* taxes on a prescribed list of goods – that is, taxes imposed on their value – and certain specific taxes. *Ad valorem* taxes are imposed on cigars, jewellery, watches above a certain value, slot machines, matches, tobacco pipes etc. at varying tax rates. Specific excise taxes – so much per number, pound or gallon, as the case may be – are imposed on cigarettes, manufactured tobacco, wines, lighters and playing cards. As part of the energy conservation program, excise taxes have been imposed on gasoline, high-energy-using passenger cars, high-powered motor cycles, large pleasure boat motors, private aircraft, and automobile air conditioning equipment.

The rates of these various taxes in December 1977 were as follows:

| | |
|---|---|
| Cigars | 20½% |
| Slot machines | 10% |
| Jewellery | 10% |
| Watches, clocks | 10% |
| Lighters | 10¢ each |
| Matches | 10% |
| Playing cards | 20¢ per pack |
| Pipes, etc | 10% |
| Wines: 7% or less alcohol | 27½¢ per gallon |
| Over 7% alcohol | 55¢ per gallon |
| Sparkling | 2.55¢ per gallon |
| Gasoline for personal use | 10¢ per gallon (plus sales tax of 5.137¢ to 5.507¢ per gallon) |
| Automobile air conditioning | $100 per unit |
| Large motorcycles | 5% |
| Private aircraft | 10% |
| Boat motors over 20 H.P. | 10% |
| Automobiles | Rates based on weight which increase with weight of vehicle (in addition to the general sales tax of 12% ). |

**Excise Duties**

These apply only on alcohol and tobacco products – liquor, spirits used in medicines and extracts, beer, cigarettes, manufactured tobacco and cigars. (Imported alcoholic beverages and tobacco products get no advantage from the excise duty exemption since they are subject to customs duties). It will be seen that cigarettes, manufactured tobacco and cigars are subject to both special excise taxes and excise duties.

The rates of these various excise duties in December 1977 were as follows:

| | | |
|---|---|---|
| (1) | Liquor (other than brandy) | $16.25 per proof gallon |
| (2) | Brandy | $14.25 per proof gallon |
| (3) | Spirits used in medicines, extracts, etc. | $ 1.50 per gallon |
| (4) | Beer | $ .42 per gallon |
| (5) | Cigarettes weighing not more than three pounds per thousand | $ 5.00 per thousand |
| (6) | Other cigarettes | $ 6.00 per thousand |
| (7) | Manufactured tobacco | $ .50 per pound |
| (8) | Cigars | $ 2.00 per thousand |

Combined taxes and duties on cigarettes were $11 per thousand and on manufactured tobacco $1.40 per pound.

**Petroleum Export Taxes**

To provide revenue for subsidizing Eastern Canadian consumers, per barrel taxes are imposed on exports of crude oil and oil products. Revenue from the federal gasoline tax is used for the same purpose.

**Air Transportation Tax**

In general, at a rate of 8% of the airline fare, to a maximum of $8.

**Customs Duties**

This is a tariff of specific and *ad valorem* duties on a wide range of imports into Canada, at three general levels: the British Preferential Tariff (limited to members of the British Commonwealth), the Most-Favoured Nation Tariff (limited to other countries with which Canada has trade agreements, including the countries participating in the General Agreement on Tariffs and Trade, known as GATT), and the General Tariff. The last is not very important since it applies only to a few countries with which Canada has little trade.

Customs duties are primarily thought of today as an instrument of foreign commercial policy, useful for regulating the flow of goods into Canada, but in addition they are an important source of revenue.

## PROVINCIAL TAXATION

The *British North America Act* of 1867 empowers the Parliament of Canada to raise money "by any mode or system of taxation", but restricts the provinces to "direct taxation" within each province. The federal government thus uses both direct and indirect taxation across Canada while the provinces are limited to direct taxes.

"Direct taxes" under Canadian law are those which are required from the person who is intended to pay it; income tax is the best example. "Indirect taxes" are those which are imposed on a person in the expectation that he will recover their cost from other people; examples are the federal customs and excise duties and the federal sales tax. Here the importer, manufacturer or dealer pays the tax but he passes it on to the customer in the selling price of the goods.

### Income Tax

As has already been noted in the section of the federal income tax, the provincial governments impose their own personal income tax, but this is collected by the federal government, as a percentage of federal tax, in all provinces except Quebec, which collects its own.

As with the personal income tax, the federal government also collects corporation income tax on behalf of the provinces, but Ontario and Quebec collect their own.

Personal income tax forms the largest item of provincial revenues.

### Retail Sales Taxes

Every province in Canada except Alberta levies a retail sales tax, and for most provinces it is the second largest source of revenue.

The retail sales tax is different from most other taxes in that it is inescapably obvious to every taxpayer. Other taxes on consumer goods are "hidden" in the sense that while they are eventually included in the retail price of the goods, their amounts are not specifically stated and consequently are an unknown and unrealized quantity to purchasers in general. How many people know, for example, how much tax they are paying when they buy cigarettes or liquor? But each time a person buys an item subject to the retail sales tax he knows exactly how much the tax is.

It is not possible here to give details of all the items taxed and exempted in each province since there is some variation from one to another. Generally exempt are food, prescription drugs, medical appliances, magazines and books, childrens' clothing, classroom and students' supplies, and some types of fuel. Exempt in some provinces are candy and soft drinks, personal hygiene supplies, babies' needs, footwear (with or without a limit on the price), farm machinery and equipment and farm products, farm livestock and feed, fertilizers, commercial fishing gear, water, ice and steam, railway rolling stock, aircraft, building materials – the list is endless and is not here complete.

Rates of provincial sales tax in December 1977 were as follows:

| | % of sale price | | % of sale price |
|---|---|---|---|
| Newfoundland | 10* | Ontario | 7 |
| Prince Edward Island | 8 | Manitoba | 5 |
| Nova Scotia | 8 | Saskatchewan | 5 |
| New Brunswick | 8 | Alberta | NIL |
| Quebec | 8 | British Columbia | 7 |

(*increased to 11% in March 1978)

Under an arrangement for the sharing of the cost of the reduction in the federal budget of April 10, 1978, provincial retail sales taxes were reduced. In Ontario, Manitoba and the Atlantic Provinces the rate was reduced by three percentage points for six months, and in Saskatchewan and British Columbia by two percentage points for nine months, effective April 11 in all cases.
In its budget of April 18, Quebec exempted from sales tax – clothing, shoes, textiles, furniture and hotel charges, leaving the general rate unchanged at 8%.

Certain services, specifically enumerated in provincial statutes, are taxed in some provinces; these include hotel and motel accommodation, telecommunication services, energy purchases, laundry and dry cleaning.

**Succession Duties and Gift Taxes**

The federal government ceased to impose death duties (which were in the form of an estate tax) and gift taxes as of the end of 1971. Most provinces also levied death taxes, but many have now repealed them as well. However, Ontario and Quebec still have these taxes. A system of tax credits between the provinces prevents the double taxation of property within Canada.

Rates of succession duties in Quebec and Ontario are dependent on three factors: a) the total ("aggregate") value of the estate; b) the relationship of the beneficiary to the deceased, the rates increasing as the relationship becomes more distant; and c) the amount received by each beneficiary. Such taxes are extremely complex and it will not be possible to give further details here. (Quebec greatly simplified its tax in proposals put forward in the 1978 budget on April 18.)

These provinces also levy a gift tax, its main purpose being to safeguard income arising from succession duties; gifts made within five years of death in Quebec and Ontario are brought back into the estate of the deceased and form part of the succession duty base on which tax rates are calculated. A tax credit is allowed for gift tax paid, up to the amount of succession duty payable on the "recaptured" gifts.

**Gasoline, etc.**

All provinces tax gasoline and diesel fuel, propane, butane, and other liquified petroleum gases, and natural gas. There are exceptions, whole or partial, for some aviation fuel, gas

and fuel oil used by farmers in farming operations or by some commercial fishermen and commercial ships in other situations too numerous to mention here.

The tax on motor fuels is a major source of provincial revenue for highway construction in all provinces.

Rates of gasoline tax, the main source of revenue, in December 1977 were as follows:

| | cents per gallon | | cents per gallon |
|---|---|---|---|
| Newfoundland | 27 | Ontario | 19 |
| Prince Edward Island | 21 | Manitoba | 18 |
| Nova Scotia | 21 | Saskatchewan | 19 |
| New Brunswick | 20 | Alberta | 10* |
| Quebec | 19 | British Columbia | 17 |

(*repealed in the March, 1978, budget)
These taxes apply, in addition, to a federal tax of approximately 15¢ per gallon.

**Alcoholic Beverages**

The sale of liquor is a provincial government monopoly in all provinces, the large mark-up on manufacturers' prices providing substantial provincial revenue. In provinces where there is a retail sales tax this also applies to alcoholic beverages unless there is special legislation.

**Tobacco**

All provinces levy a special tax on cigarettes, cigars and tobacco and some other tobacco products. Rates range from 1/3 cent to over 1¢ per cigarette as an example.

**Capital Taxes**

Ontario, Quebec, British Columbia and Manitoba impose a tax on the "paid-up capital" of corporations. This term includes not only the amount received by the company on its issued stock but also its surplus, long-term debt, short-term debt of a capital nature, and some types of reserve funds. The rates vary in the four provinces, but are a fraction of 1%.

**Place of Business Taxes**

Quebec is the only province imposing a "place of business" tax, which is a specific dollar amount depending on the size of the corporation's paid-up capital.

**Insurance Premium Taxes**

All provinces levy an insurance premium tax on gross premium income in respect of insurance business transacted within the province, though there are some exemptions such as companies insuring only charitable and similar institutions. In most provinces, the rate is 2% (3% in Ontario).

**Natural Resource Revenues**

All provinces receive revenues from natural resources, either as royalties, rents or taxes or in the form of charges for the right to exploit a resource. In recent years, these have become of great importance in provinces having petroleum deposits, the prominent case being Alberta.

**Miscellaneous Charges**

*Motor Vehicles and Drivers Licenses.* All provinces charge substantial fees which provide revenues for highway construction.

*Health Insurance Premiums.* Ontario, Alberta and British Columbia levy health insurance premiums on the taxpayer to help finance their health programs. They are expressed as an annual dollar amount varying with single or family status. Quebec finances its medicare by levies on employees, employers and the self-employed. (The levy on employees was dropped in the 1978 budget.)

*Workmen's Compensation.* This is financed entirely by levies on employers.

*Property Taxes.* Although primarily the prerogative of municipal government, some provinces impose taxes on certain forms of real property.

Other taxes of relatively minor importance levied by provinces are: land transfer (Ontario) and land speculation tax (Ontario and Quebec); amusement taxes (Prince Edward Island, Nova Scotia, New Brunswick and Ontario); pari-mutuel bets tax (all provinces); public utilities taxes (Newfoundland, Nova Scotia, New Brunswick and Quebec); taxes on pipe and power lines (most provinces); and crop insurance premiums from farmers (all provinces except Newfoundland).

## MUNICIPAL TAXATION

Municipal or "local" governments derive their authority from the provincial legislatures, which lay down their powers and responsibilities and the revenue sources they may use. The provinces in their turn can delegate to the municipalities only those powers which they themselves have under the *British North America Act.*

At one time in Canada the municipalities were responsible for providing most local services out of revenue from the property tax. But with increasing public demand for more and better government services, financial responsibility has shifted in many cases to other levels of government. For example, senior governments have taken over responsibility for public health and for much of the cost of social security and education. Grants are also given by the provinces for many of the remaining services such as services to property (the provision of roads, sewers etc.), minor social services such as parks and recreation, pollution control and local police and fire protection. In all, these grants and other forms of assistance provide about two-thirds of municipal revenues.

Nonetheless the rapid growth of large metropolitan areas has thrust heavy burdens on the municipalities. Their almost sole source of tax revenue, the property tax, is therefore under constant pressure.

**Real Property Tax**

Real property includes land and buildings in all provinces, and in most provinces also includes machinery, equipment and fixtures attached to a building. All provinces provide for some exemptions from the real property tax, mandatory or discretionary or both, but these are not uniform in all provinces. Schools, churches, Crown lands and public properties are mandatory exemptions in all provinces, and hospitals in most. Other property exempt in some or most provinces are homes for the aged, property of charitable organizations or non-profit organizations and cemetaries. This list is by no means complete.

Real property is assessed on all or part of its true value as determined by the assessment process, and the tax is levied at rates expressed in "mills" per dollar of the assessed value of the property. There are wide variations in the methods used to arrive at the assessed value, but it may be said that an attempt is made to relate it to either current market value or the market value that prevailed at the time the last general assessment was made in the municipality. In some areas land may be assessed differently from buildings.

The property tax rate is "struck" each year by a simple mathematical process. It is arrived at by taking total municipal expenditure for the year, deducting the revenues from other sources (such as grants) and then dividing the balance among assessed properties. In other words, its amount depends on what expenditures the municipality has left to cover.

Many provinces now pay the municipalities "grants in lieu" of taxes on all or certain of their provincially-owned property. Quebec and Ontario allow municipalities to tax universities and hospitals, and then reimburse those institutions. Since 1973, Ontario has provided grants to municipalities specifically for the purpose of reducing pressure upon them to raise taxes, and several other provinces have taken steps to reduce the residential property tax burden through such means as lower mill rates, exemptions or deferments for certain classes of people such as the aged or impoverished, home owner grants and tax credits to be set off against provincial personal income tax.

Tax reform is a constant issue for the property tax and studies are continuing in nearly all provinces at present.

**Special Assessments and Charges**

Municipalities may issue special assessments and charges for local improvements such as sidewalks and sewers, which are frequently paid for by owners of abutting property on the basis of total cost divided by the individual frontage of the properties, rather than by taxation based on property values. Such special assessments are now relatively unimportant in total municipal revenues. Garbage collection is also sometimes paid for by a flat rate on like properties.

**Taxation of Tenants**

Two provinces – Saskatchewan and Quebec – authorize municipalities to tax tenants, on the basis of the rent paid.

**Personal Property Tax**

Only two provinces are now left with a tax on personal property – Nova Scotia and Manitoba. In Nova Scotia the term includes all kinds of goods and chattels but excludes money, stocks and shares and so on; separate provision is made for residential personal property. In Manitoba the term does not include residential property by does include stocks and shares, certain plant and machinery and buildings "not affixed" to land. These taxes produce very little revenue.

**Business Tax**

A special tax on businesses is common among Canadian municipalities. There are several bases upon which the tax is levied, including stock-in-trade, rental value, square footage, storage capacity, assessed value and even a flat rate, and the base varies from province to province. The tax is next in importance to the real property tax as a producer of revenue, but ranks a long way behind, with only about 3 to 4% of total revenue against the 30 to 35% of the real property tax.

## TAX TREATIES

Tax treaties play an important part in the international field, and Canada has treaties with a great number of countries. They mainly relate to income tax, although there are also treaties for death taxes. It is neither possible nor necessary to discuss here in detail these various treaties, but certain general provisions are common to all or most. For Canada the most important is that with the United States, because of the close social, commercial and economic ties between the two countries. The following general remarks therefore apply mainly to the *Canada – U.S. Tax Convention;* and though the details of other treaties may differ, their basic purpose is the same.

That basic purpose is a dual one: to avoid the double taxation of the same income (as when one country taxes a person on his world income because he is a resident or domiciled in that country while another country may tax income arising within its boundaries) and to prevent tax evasion.

The most usual method of relieving double taxation is by exempting income at its source. Hence, in most treaties one country exempts the industrial and commercial profits of the other unless that other has a "permanent establishment" in the first country.

The term "permanent establishment" is defined in some detail in each of the tax treaties, and may be roughly said to mean a fixed place of business; it does not include a subsidiary company or an independent agent (such as a broker or commission agent) through whom business dealings are carried on.

Some of the things that are generally exempted by the taxing countries are:

(a) remuneration for personal services performed in one country by a resident of the other country, subject to certain conditions: for example royalties derived from the taxing country and payable to a resident of the other (which has no permanent establishment in the taxing country);

(b) pensions and life annuities derived from the taxing country and payable to a resident in the other;

(c) directors' fees;

(d) undistributed corporate surpluses;

(e) capital gains;

(f) income of charitable, scientific or religious organizations.

Each country usually allows as a deduction from tax the taxes paid to the other country on income derived from within the other country.

The other function of tax treaties – the prevention of tax evasion – is achieved by agreements allowing an exchange of information between the taxing authorities of the two countries.

When a tax treaty is signed Canada passes legislation stating that it has the force of law, and that if there is inconsistency between the treaty and the Canadian *Income Tax Act*, the treaty will prevail.

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## APPENDIX OF TABLES

### Table I

### REVENUE AND EXPENDITURE OF ALL GOVERNMENTS EXCLUDING INTERGOVERNMENTAL TRANSFERS

Calendar Year 1976

| | Federal | Provincial | Local | Hospitals | Canada and Quebec Pension Plans | Total |
|---|---|---|---|---|---|---|
| | | | ($ million) | | | |
| Tax revenue[a] | 32,923 | 19,197 | 6,854 | – | 2,205 | 61,179 |
| Other revenue | 3,024 | 6,675 | 1,420 | 225 | 1,065 | 12,409 |
| Total revenue | 35,947 | 25,872 | 8,274 | 225 | 3,270 | 73,588 |
| Expenditure on goods and services[b] | 10,987 | 13,133 | 15,195 | 5,791 | 58 | 45,164 |
| Other expenditure | 19,339 | 10,005 | 1,352 | 50 | 1,042 | 31,788 |
| Total expenditure | 30,326 | 23,138 | 16,547 | 5,841 | 1,100 | 76,952 |
| Surplus (+) or deficit (–) | +5,621 | +2,734 | –8,273 | –5,616 | +2,170 | –3,364 |
| | | | As a Percentage of Gross National Product | | | |
| Tax revenue | 17.3 | 10.1 | 3.6 | – | 1.1 | 32.2 |
| Other revenue | 1.6 | 3.5 | .7 | .1 | .6 | 6.5 |
| Total revenue | 18.9 | 13.6 | 4.4 | .1 | 1.7 | 38.7 |
| Expenditure on goods and services | 5.8 | 6.9 | 8.0 | 3.0 | – | 23.8 |
| Other expenditure | 10.2 | 5.3 | .7 | – | .5 | 16.7 |
| Total expenditure | 16.0 | 12.2 | 8.7 | 3.1 | .6 | 40.5 |
| Surplus (+) or deficit (–) | +3.0 | +1.4 | –4.4 | –3.0 | +1.1 | –1.8 |

[a]Includes capital consumption allowance. [b]Includes current expenditure and gross capital formation.

Source: *National Income and Expenditure Account, Second Quarter 1977*, Statistics Canada; Canadian Tax Foundation, *The National Finances 1977-78*

## Table II

## CONSOLIDATED GOVERNMENT GROSS GENERAL REVENUE

### 1974-75[a]

| | Total Amount Collected | | | % Distribution | |
|---|---|---|---|---|---|
| | Federal | Provincial-Local ($ million) | Total | Federal | Provincial-Local (%) |
| **Taxes** | | | | | |
| Income | | | | | |
| Personal | 11,710.3 | 5,615.7 | 17,326.0 | 67.6 | 32.4 |
| Corporation | 4,835.7 | 1,887.6 | 6,723.3 | 71.9 | 28.1 |
| Interest, dividends, etc, going abroad | 427.4 | – | 427.4 | 100.0 | – |
| Other business taxes | – | 688.3 | 688.3 | – | 100.0 |
| Real and personal property | – | 4,353.5 | 4,353.5 | – | 100.0 |
| General and other sales taxes | 5,024.8 | 4,085.2 | 9,110.0 | 55.2 | 44.8 |
| Motive fuel taxes | – | 1,444.1 | 1,444.1 | – | 100.0 |
| Customs duties | 1,808.9 | – | 1,808.9 | 100.0 | – |
| Estates, successions and gifts | 7.1 | 167.4 | 174.5 | 4.1 | 95.9 |
| Health insurance premiums[b] | – | 854.6 | 854.6 | – | 100.0 |
| Social insurance levies | 1,670.2 | 674.4 | 2,344.6 | 71.2 | 28.8 |
| Universal pension plan levies | 1,213.3 | 400.4 | 1,613.7 | 75.2 | 24.8 |
| Oil export tax | 1,669.4 | – | 1,669.4 | 100.0 | – |
| Other | .3 | 122.8 | 123.2 | .2 | 99.7 |
| Total tax revenue | 28,367.3 | 20,294.0 | 48,661.3 | 58.3 | 41.7 |
| **Non-tax revenue** | | | | | |
| Natural resource revenue | 21.3 | 2,376.4 | 2,397.7 | .9 | 99.1 |
| Privileges, licences and permits | 24.1 | 850.3 | 874.4 | 2.8 | 97.2 |
| Sales of goods and services | 940.5 | 1,489.2 | 2,429.7 | 38.7 | 61.3 |
| Return on investments | 1,904.2 | 2,506.9 | 4,411.1 | 43.2 | 56.8 |
| Other | 935.0 | 558.6 | 1,493.6 | 62.6 | 37.4 |
| Total non-tax revenue | 3,825.2 | 7,781.3 | 11,606.5 | 33.0 | 67.0 |
| Total revenue from own sources | 32,192.4 | 28,075.4 | 60,267.8 | 53.4 | 46.6 |
| **Transfers from other levels of government** | | | | | |
| General purpose | – | 3,104.7 | 3,104.7 | | |
| Specific purpose | – | 9,437.8 | 9,437.8 | | |
| Intergovernmental sales | 295.4 | .7 | 296.1 | | |
| **Transfers from government enterprises** | | | | | |
| Federal | – | 28.0 | 28.0 | | |
| Provincial and local | – | 60.5 | 60.5 | | |
| Total intergovernmental transfers and sales | 295.4 | 12,631.8 | 12,927.2 | | |
| Total gross revenue including intergovernmental transfers and sales[c] | 32,487.8 | 40,707.2 | | | |

[a]Fiscal year ended March 31, 1975 for federal and provincial governments and calendar year 1974 for most local governments; in the province of Quebec the fiscal year of some cities ends April 30. [b]Includes tax on payrolls in Quebec. [c]These figures include double counting of intergovernmental transfers (see text).

Source: Statistics Canada, *Consolidated Government Finance, 1974*; Canadian Tax Foundation, *The National Finances 1977-78*

## Table III

## DIRECT AND INDIRECT TAXES EXPRESSED AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

For Selected Calendar Years, 1926 to 1976

| Year[a] | Direct and Indirect Taxes | | | | | Direct and Indirect Taxes as a Percentage of Gross National Product | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Federal | CPP & QPP | Provincial | Local | Total | Federal | CPP & QPP | Provincial | Local | Total |
| | ($ million) | | | | | % | | | | |
| 1926 | 355 | – | 110 | 252 | 717 | 6.9 | – | 2.1 | 4.9 | 13.9 |
| 1929 | 390 | – | 153 | 296 | 839 | 6.4 | – | 2.5 | 4.8 | 13.7 |
| 1933 | 282 | – | 126 | 259 | 667 | 8.1 | – | 3.6 | 7.4 | 19.1 |
| 1939 | 470 | – | 234 | 284 | 988 | 8.4 | – | 4.2 | 5.1 | 17.6 |
| 1943 | 2,266 | – | 272 | 302 | 2,840 | 20.5 | – | 2.5 | 2.7 | 25.7 |
| 1946 | 2,447 | – | 417 | 332 | 3,196 | 20.6 | – | 3.5 | 2.8 | 26.9 |
| 1950 | 2,822 | – | 763 | 506 | 4,091 | 15.3 | – | 4.1 | 2.7 | 22.1 |
| 1955 | 4,705 | – | 1,032 | 902 | 6,639 | 16.5 | – | 3.6 | 3.2 | 23.3 |
| 1957 | 5,347 | – | 1,411 | 1,148 | 7,906 | 16.0 | – | 4.2 | 3.4 | 23.6 |
| 1958 | 5,024 | – | 1,510 | 1,264 | 7,798 | 14.4 | – | 4.3 | 3.6 | 22.4 |
| 1959 | 5,717 | – | 1,623 | 1,444 | 8,784 | 15.5 | – | 4.4 | 3.9 | 23.8 |
| 1960 | 6,067 | – | 1,702 | 1,593 | 9.362 | 15.8 | – | 4.4 | 4.2 | 24.4 |
| 1961 | 6,278 | – | 1,889 | 1,701 | 9,868 | 15.8 | – | 4.8 | 4.3 | 24.9 |
| 1962 | 6,444 | – | 2,586 | 1,835 | 10,865 | 15.0 | – | 6.0 | 4.3 | 25.3 |
| 1963 | 6,718 | – | 2,849 | 1,953 | 11,520 | 14.6 | – | 6.2 | 4.2 | 25.1 |
| 1964 | 7,689 | – | 3,319 | 2,026 | 13,034 | 15.3 | – | 6.6 | 4.0 | 25.9 |
| 1965 | 8,396 | – | 3,909 | 2,231 | 14,536 | 15.2 | – | 7.1 | 4.0 | 26.3 |
| 1966 | 9,182 | 714 | 4,647 | 2,477 | 17,020 | 14.9 | 1.2 | 7.5 | 4.0 | 27.5 |
| 1967 | 9,986 | 849 | 5,512 | 2,765 | 19,112 | 15.0 | 1.3 | 8.3 | 4.2 | 28.8 |
| 1968 | 11,202 | 925 | 6,386 | 3,095 | 21,608 | 15.4 | 1.3 | 8.8 | 4.3 | 29.8 |
| 1969 | 13,167 | 1,007 | 7,297 | 3,462 | 24,933 | 16.5 | 1.3 | 9.1 | 4.3 | 31.2 |
| 1970 | 14,015 | 1,054 | 8,114 | 3,758 | 26,941 | 16.4 | 1.2 | 9.5 | 4.4 | 31.4 |
| 1971 | 15.534 | 1,103 | 9,075 | 4,002 | 29,714 | 16.4 | 1.2 | 9.6 | 4.2 | 31.5 |
| 1972 | 17,594 | 1,190 | 10,436 | 4,378 | 33,598 | 16.7 | 1.1 | 9.9 | 4.2 | 31.9 |
| 1973 | 20,664 | 1,305 | 12,509 | 4,651 | 39,129 | 16.7 | 1.1 | 10.1 | 3.8 | 31.7 |
| 1974 | 27,449 | 1,608 | 15,244 | 5,145 | 49,446 | 18.7 | 1.1 | 10.4 | 3.5 | 33.6 |
| 1975 | 29,181 | 1,906 | 16,836 | 6,009 | 53,932 | 17.6 | 1.2 | 10.2 | 3.6 | 32.6 |
| 1976 | 32,923 | 2,205 | 19,197 | 6,854 | 61,179 | 17.3 | 1.2 | 10.1 | 3.6 | 32.2 |

[a]Includes Newfoundland for 1949 and subsequent years.

Source: Statistics Canada, *National Income and Expenditure Accounts* (dollar figures only); Canadian Tax Foundation, *The National Finances 1977-78*

## Table IV

## TOTAL GOVERNMENT REVENUE FOR SELECTED CALENDAR YEARS, 1926 TO 1976

### Before and After Exclusion of Intergovernmental Transfers

($ million)

| Year[a] | Federal[b] | Provincial[b] | | Local[b] | | Hospital[b] | | Canada and Quebec Pension Plans | Total[b] Excluding Transfers |
|---|---|---|---|---|---|---|---|---|---|
| | | Including Transfers | Excluding Transfers | Including Transfers | Excluding Transfers | Including Transfers | Excluding Transfers | | |
| 1926 | 389 | 177 | 156 | 345 | 322 | – | – | – | 867 |
| 1929 | 418 | 233 | 209 | 405 | 375 | – | – | – | 1,002 |
| 1933 | 266 | 243 | 177 | 357 | 337 | – | – | – | 780 |
| 1939 | 481 | 397 | 311 | 402 | 370 | – | – | – | 1,162 |
| 1943 | 2,469 | 524 | 369 | 443 | 403 | – | – | – | 3,241 |
| 1946 | 2,632 | 723 | 542 | 519 | 440 | – | – | – | 3,614 |
| 1950 | 3,020 | 1,226 | 965 | 821 | 649 | – | – | – | 4,634 |
| 1955 | 5,008 | 1,842 | 1,377 | 1,407 | 1,073 | – | – | – | 7,458 |
| 1957 | 5,672 | 2,391 | 1,858 | 1,825 | 1,357 | – | – | – | 8,887 |
| 1958 | 5,409 | 2,627 | 1,970 | 2,057 | 1,489 | – | – | – | 8,868 |
| 1959 | 6,139 | 3,101 | 2,221 | 2,332 | 1,686 | – | – | – | 10,046 |
| 1960 | 6,517 | 3,319 | 2,340 | 2,599 | 1,853 | – | – | – | 10,710 |
| 1961 | 6,779 | 3,664 | 2,554 | 2,856 | 1,982 | 763 | 50 | – | 11,365 |
| 1962 | 6,979 | 4,421 | 3,316 | 3,249 | 2,142 | 849 | 54 | – | 12,491 |
| 1963 | 7,323 | 4,773 | 3,639 | 3,486 | 2,286 | 912 | 60 | – | 13,308 |
| 1964 | 8,355 | 5,406 | 4,189 | 3,738 | 2,396 | 1,030 | 64 | – | 15,004 |
| 1965 | 9,095 | 6,328 | 4,949 | 4,160 | 2,646 | 1,206 | 71 | – | 16,761 |
| 1966 | 9,984 | 7,375 | 5,782 | 4,824 | 2,956 | 1,375 | 80 | 724 | 19,526 |
| 1967 | 10,906 | 8,733 | 6,782 | 5,420 | 3,298 | 1,621 | 86 | 904 | 21,976 |
| 1968 | 12,218 | 10,286 | 7,966 | 6,012 | 3,658 | 1,866 | 92 | 1,040 | 24,974 |
| 1969 | 14,490 | 11,971 | 9,293 | 6,662 | 4,067 | 2,115 | 101 | 1,190 | 29,141 |
| 1970 | 15,528 | 13,895 | 10,548 | 7,630 | 4,438 | 2,441 | 113 | 1,327 | 31,954 |
| 1971 | 17,241 | 16,018 | 11,744 | 8,331 | 4,748 | 2,653 | 124 | 1,478 | 35,335 |
| 1972 | 19,560 | 17,702 | 13,253 | 9,283 | 5,214 | 3,067 | 135 | 1,657 | 39,819 |
| 1973 | 22,809 | 20,614 | 15,880 | 10,083 | 5,582 | 3,323 | 151 | 1,875 | 46,297 |
| 1974 | 29,948 | 26,035 | 19,981 | 11,523 | 6,215 | 4,175 | 179 | 2,313 | 58,636 |
| 1975 | 31,927 | 30,095 | 22,528 | 13,813 | 7,244 | 4,957 | 201 | 2,772 | 64,672 |
| 1976 | 30,947 | 34,214 | 25,872 | 15,488 | 8,274 | 5,670 | 225 | 3,270 | 73,588 |

[a]Includes Newfoundland for 1949 and subsequent years. [b]Includes capital consumption allowances.

Source: Statistics Canada, *National Income and Expenditure Accounts*. Canadian Tax Foundation; *The National Finances 1977-78*

## Table V

## FEDERAL BUDGETARY REVENUE
### Fiscal Years Ending March 31, 1968 and 1976 to 1978[a]
### ($ million)

| | 1968 | 1976 | 1977 | 1978[b] |
|---|---|---|---|---|
| TAXES | | | | |
| Personal income | 3,649.7[c] | 12,709.2[c] | 14,620.3 | 14,100.0 |
| Corporate income | 1,820.6[c] | 5,748.2[c] | 5,377.4 | 5,670.0 |
| Non-resident income | 220.5 | 481.3 | 451.0 | 500.0 |
| | 5,690.8 | 18,938.7 | 20,448.7 | 20,270.0 |
| Estate tax | 102.2 | d | d | d |
| Sales tax | 2,145.6[c] | 3,514.8[c] | 3,928.8 | 4,250.0 |
| Other excise taxes | | | | |
| Cigarettes, tobacco and cigars | 266.7 | 369.5 | 405.1 | |
| Jewellery | 10.2 | 32.5 | 29.7 | |
| Matches and lighters | 1.2 | 2.8 | 3.1 | |
| Wines | 5.3 | 12.0 | 9.6 | |
| Gasoline tax–special | – | 425.1 | 599.7 | |
| Other | 54.2 | 22.3 | 38.5 | |
| Less refunds | -.6 | -1.4 | -1.2 | |
| | 337.0 | 862.8 | 1,084.6 | d |
| Oil export charge | – | 1,062.9 | 660.6 | d |
| Excise duties | | | | |
| Spirits and beer | 300.7 | 536.6 | 549.4 | |
| Cigarettes, tobacco and cigars | 194.6 | 289.7 | 316.6 | |
| Less refunds | -6.7 | -10.8 | -2.4 | |
| | 488.6 | 815.5 | 864.6 | d |
| Customs import duties | 746.4 | 1,887.2 | 2,097.5 | 2,410.0 |
| Other taxes | .3 | 11.3 | 70.1 | 2,530.0 |
| Total taxes | 9,510.9 | 27,093.2 | 29,154.8 | 29,460.0 |
| NON-TAX REVENUE | | | | |
| Post Office | 281.6 | 444.0 | 614.7 | |
| Return on investments | 612.3 | 2,096.8 | 2,493.0 | |
| Other | 166.4 | 321.8 | 377.8 | |
| | 1,060.3 | 2,862.6 | 3,485.5 | 3,590.0 |
| Total budgetary revenue | 10,571.2[c] | 29,955.8[c] | 32,640.3 | 33,050.0 |
| OLD AGE SECURITY REVENUE | | | | |
| Personal income tax | 800.1 | 507.0 | – | – |
| Corporation income tax | 150.0 | 139.8 | – | – |
| Sales tax | 544.5 | 149.6 | – | – |
| | 1,494.6 | 796.4[e] | – | – |
| CANADA PENSION PLAN | | | | |
| Employer and employee contributions | 640.2 | 1,489.2 | 1,684.0 | |
| Investment and other income | 44.5 | 639.8 | 777.0 | |
| | 684.7 | 2,129.0 | 2,461.0 | |
| UNEMPLOYMENT INSURANCE ACCOUNT | | | | |
| Employer and employee contributions | 347.4 | 2,087.1 | 2,528.0 | |
| Investment and other income | 16.1 | 1.3 | 11.0 | |
| | 363.5 | 2,088.4 | 2,539.0 | |

[a]1968 and 1978 revenues are somewhat overstated in comparison to other years shown; some revenue has been deducted from expenditures in other years. [b]Estimates from the *Economic and Fiscal Statement*, October 20, 1977. [c]Includes contributions to Old Age Security Account shown below. [d]Included in "Other taxes". [e]Fund disbanded. See Chapter 7; Canadian Tax Foundation, *The National Finances 1977-78*

**Table VI**

PERSONAL INCOME TAX

FEDERAL AND PROVINCIAL MARGINAL RATES (COMBINED)

1977

| Taxable Income $ | Combined Marginal Rates % | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nfld. | P.E.I. | N.S. | N.B. | Que. | Ont. | Man. | Sask. | Alta. | B.C. |
| 1 | 3.45 | 3.00 | 3.15 | 3.28 | – | – | – | – | – | – |
| 711 | 9.20 | 8.00 | 8.40 | 8.75 | – | – | – | – | – | – |
| 1,420 | 9.78 | 8.50 | 8.92 | 9.29 | – | – | – | – | – | – |
| 1,679 | 26.78 | 25.50 | 25.92 | 26.29 | 14.20 | 24.48 | 26.52 | 17.00 | 23.55 | 24.82 |
| 2,001 | 26.78 | 25.50 | 25.92 | 26.29 | 30.20 | 24.48 | 26.52 | 26.95 | 23.55 | 24.82 |
| 2,839 | 28.35 | 27.00 | 27.45 | 27.84 | 31.03 | 25.92 | 28.08 | 28.53 | 24.93 | 26.28 |
| 4,258 | 29.93 | 28.50 | 28.98 | 29.39 | 31.87 | 27.36 | 29.64 | 30.12 | 26.32 | 27.74 |
| 7,096 | 33.08 | 31.50 | 32.03 | 32.48 | 33.54 | 30.24 | 32.76 | 33.29 | 29.09 | 30.66 |
| 9,001 | 33.08 | 31.50 | 32.03 | 32.48 | 35.54 | 30.24 | 32.76 | 33.29 | 29.09 | 30.66 |
| 9,934 | 36.23 | 34.50 | 35.08 | 35.57 | 37.21 | 33.12 | 35.88 | 36.46 | 31.86 | 33.58 |
| 11,001 | 36.23 | 34.50 | 35.08 | 35.57 | 39.21 | 33.12 | 35.88 | 36.46 | 31.86 | 33.58 |
| 11,820 | 34.14 | 32.41 | 32.99 | 33.48 | 37.12 | 31.03 | 33.79 | 34.37 | 29.77 | 31.49 |
| 12,772 | 37.13 | 35.25 | 35.88 | 36.43 | 38.60 | 33.75 | 36.75 | 37.38 | 32.38 | 34.25 |
| 14,001 | 37.13 | 35.25 | 35.88 | 36.43 | 40.60 | 33.75 | 36.75 | 37.38 | 32.38 | 34.25 |
| 15,610 | 41.58 | 39.48 | 40.18 | 40.79 | 42.86 | 37.80 | 41.16 | 41.86 | 36.26 | 38.36 |
| 16,570 | 41.58 | 39.48 | 40.18 | 40.79 | 42.86 | 37.80 | 41.16 | 41.86 | 36.26 | 38.36 |
| 19,867 | 47.52 | 45.12 | 45.92 | 46.61 | 45.84 | 43.20 | 47.04 | 49.71 | 41.44 | 43.84 |
| 20,001 | 47.52 | 45.12 | 45.92 | 46.61 | 45.84 | 43.20 | 50.62 | 49.71 | 41.44 | 43.84 |
| 23,659 | 50.40 | 48.00 | 48.80 | 49.49 | 48.72 | 46.08 | 53.50 | 52.59 | 44.32 | 46.72 |
| 24,001 | 50.40 | 48.00 | 48.80 | 49.49 | 50.72 | 46.08 | 53.50 | 52.59 | 44.32 | 46.72 |
| 34,057 | 56.70 | 54.00 | 54.90 | 55.68 | 54.06 | 51.84 | 60.19 | 59.17 | 49.86 | 52.56 |
| 39,001 | 56.70 | 54.00 | 54.90 | 55.68 | 56.06 | 51.84 | 60.19 | 59.17 | 49.86 | 52.56 |
| 55,342 | 61.43 | 58.50 | 59.48 | 60.32 | 58.57 | 56.16 | 65.21 | 64.09 | 54.02 | 56.94 |
| 60,001 | 61.43 | 58.50 | 59.48 | 60.32 | 60.57 | 56.16 | 65.21 | 64.09 | 54.02 | 56.94 |
| 85,141 | 67.73 | 64.50 | 65.58 | 66.51 | 63.91 | 61.92 | 71.90 | 70.67 | 59.56 | 62.78 |

Source: Canadian Tax Foundation. *The National Finances 1977-78*

## Table VII

GROSS GENERAL REVENUE ESTIMATES OF PROVINCIAL GOVERNMENTS
(CURRENT AND CAPITAL COMBINED)
1976-77
($ million)

| | Nfld. | P.E.I. | N.S. | N.B. | Que. | Ont. | Man. | Sask. | Alta. | B.C. | All Provinces |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Taxes | | | | | | | | | | | |
| Personal income[a] | 109.0 | 16.9 | 173.9 | 137.8 | 3,401.6[b] | 2,350.0 | 282.4 | 256.4 | 377.5 | 815.9 | 7,921.4 |
| Corporation income[a] | 22.1 | 3.0 | 34.6 | 26.0 | 540.0 | 929.0 | 79.8 | 54.0 | 379.0 | 271.5 | 2,339.0 |
| General sales | 145.9 | 21.2 | 141.3 | 130.4 | 1,486.3 | 1,932.7 | 192.3 | 174.9 | — | 722.4 | 4,958.8 |
| Motive fuel | 40.2 | 8.9 | 58.8 | 50.5 | 457.3 | 615.0 | 72.5 | 62.1 | 88.0 | 191.8 | 1,645.1 |
| Tobacco | 11.3 | 1.9 | 11.4 | 7.4 | 170.8 | 152.0 | 18.8 | 13.2 | 16.3 | 32.1 | 423.8 |
| Death and gift | .6 | — | .1 | .8 | 25.0 | 64.2 | 7.5 | 5.0 | — | 26.0 | 129.2 |
| Health insurance premiums | — | — | — | — | — | 790.0 | — | — | 74.0 | 140.0 | 1,004.0 |
| Social insurance levies | 11.0 | 1.8 | 22.6 | 18.2 | 263.0 | 365.0 | 26.5 | 30.0 | 90.0 | 130.0 | 958.1 |
| Quebec Pension Plan levies | — | — | — | — | 555.8 | — | — | — | — | — | 555.8 |
| Other taxes[c] | 7.3 | 10.8 | 8.5 | 46.6 | 626.4 | 308.7 | 31.1 | 34.4 | 28.4 | 101.8 | 1,204.0 |
| Natural resource revenue | 12.2 | .2 | 6.1 | 15.6 | 109.8 | 171.2 | 31.3 | 350.9 | 2,186.8 | 212.4 | 3,096.5 |
| Privileges, licences and permits | 27.8 | 2.9 | 26.1 | 22.5 | 248.8 | 387.0 | 35.7 | 24.6 | 52.6 | 67.1 | 895.1 |
| Sales of goods and services | 37.8 | 8.5 | 27.3 | 19.9 | 164.3 | 253.8 | 54.0 | 42.9 | 54.9 | 130.6 | 794.0 |
| Liquor board profits | 17.7 | 6.2 | 46.6 | 35.8 | 170.0 | 301.6 | 59.6 | 57.8 | 114.2 | 152.4 | 961.9 |
| Return on investments | 31.1 | 7.7 | 54.2 | 18.7 | 558.7 | 748.3 | 88.5 | 111.4 | 185.6 | 310.1 | 2,114.3 |
| Contributions to pension plans[d] | 12.2 | — | .1 | 6.8 | 85.0 | 52.7 | — | 5.6 | 64.1 | — | 226.5 |
| Other revenue from own sources | 1.7 | .4 | 2.1 | 1.8 | 21.5 | 55.0 | 3.2 | 6.4 | 8.2 | 10.0 | 110.3 |
| Total revenue from own sources | 488.0 | 90.4 | 613.8 | 538.7 | 8,884.3 | 9,476.4 | 983.3 | 1,229.6 | 3,719.8 | 3,314.2 | 29,338.3 |
| Transfers from the federal government[e] | | | | | | | | | | | |
| Equalization | 234.4 | 56.4 | 297.3 | 229.1 | 1,145.3 | — | 165.0 | 98.9 | — | — | 2,226.4 |
| Other unconditional transfers | 25.4 | 3.2 | 18.4 | 23.1 | 41.6 | 390.1 | 55.1 | 34.4 | 88.6 | 67.9 | 748.0 |
| Specific purpose transfers | 205.2 | 69.1 | 258.6 | 245.9 | 1,171.4 | 2,086.0 | 290.1 | 259.1 | 492.6 | 623.5 | 5,701.5 |
| Total transfers from the federal government | 465.0 | 128.7 | 574.3 | 498.1 | 2,358.3 | 2,476.1 | 510.2 | 392.4 | 581.2 | 691.4 | 8,675.9 |
| Transfers from local governments | — | — | .3 | 2.3 | — | 1.0 | 2.6 | 5.3 | .1 | 29.6 | 41.2 |
| Total gross general revenue | 953.0 | 219.1 | 1,188.4 | 1,039.1 | 11,242.6[f] | 11,953.5 | 1,496.1 | 1,627.4 | 4,301.0 | 4,035.2 | 38,055.4 |
| Population, October 1, 1976 (000) | 559 | 121 | 836 | 692 | 6,267 | 8,373 | 1,030 | 941 | 1,850 | 2,502 | 23,171 |
| Per capita ($) | 1,705 | 1,811 | 1,422 | 1,502 | 1,794 | 1,428 | 1,453 | 1,729 | 2,325 | 1,613 | 1,642 |

[a]Collected by the federal government for all provinces except Quebec in the case of personal income tax and all except Quebec and Ontario in the case of corporation income tax. [b]Includes 351.6 tax on individuals for medicare. [c]See Chapter 5 for details. [d]Non-trusteed public service and teachers pension plans. [e]Includes Crown corporations and enterprises. [f]Excludes revenue of Quebec Autoroutes Authority.

Source: Statistics Canada, *Provincial Government Finance, Revenue and Expenditure (Estimates) 1976.*

Canadian Tax Foundation. *Provincial and Municipal Finances 1977*

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## Table VIII

## MAIN PROVINCIAL TAX RATES – APRIL, 1978

| | Corp'n Income Tax % | Personal Income Tax (as % of Federal) | General Sales Tax % | Gasoline (¢/gal.) | Tobacco (¢/cigarette) |
|---|---|---|---|---|---|
| Newfoundland | 12/14 | 58.0 | 8[a] | 27 | 1.35 |
| Prince Edward Island | 10 | 50.0 | 5[a] | 21 | 0.8 |
| Nova Scotia | 12 | 52.5 | 5[a] | 21 | 0.6 |
| New Brunswick | 9/12 | 53.83 | 5[a] | 20 | 0.7 |
| Quebec | 12 | b | 8[c] | 19 | 1.08 |
| Ontario | 10/13 | 44.0 | 4[a] | 19 | 1.1 |
| Manitoba | 11/15 | 54 | 2[a] | 18 | 1.0 |
| Saskatchewan | 11/14 | 53.0 | 3[a] | 19 | .96 |
| Alberta | 11 | 38.5 | nil | nil | .32 |
| British Columbia | 12/15 | 46 | 5[d] | 17 | .96 |

[a] Temporarily reduced as result of federal budget offer.
[b] Quebec has its own system which was revised in the 1978 Budget.
[c] Selective exemptions have been introduced.
[d] This reduction has no expiration date.

Note – Underlining indicates rate change in 1978 provincial budget.
– When two corporation income tax rates are shown, the lower rate applies to those eligible for the federal small business rate.

Source: Canadian Tax Foundation

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